MANAGEMENT'S DISCUSSION AND ANALYSIS

As of December 19, 2013

OVERVIEW

Consolidated HCI Holdings Corporation ("CHCI" or the "Company") is an Ontario based, publicly traded real estate development company trading on the Toronto Stock Exchange under the symbol CXA.B. The following discussion and analysis of the financial condition of the Company and its financial performance for the two years ended September 30, 2013 and 2012 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in the 2013 and 2012 audited consolidated financial statements. Amounts presented in this MD&A are in thousands of Canadian dollars, unless otherwise noted.

The information included in this MD&A, including 2012 comparative information, has been prepared in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted.

The Company's activities in the real estate industry are conducted with others at varying participation rates in co-tenancies and joint ventures. The consolidated financial statements include these ventures on a proportionate consolidation basis. The activities of the Company include the redevelopment of an existing industrial property in Vaughan, Ontario for industrial and commercial uses to lease to others. The Company has also conducted activities through various ventures in the building and selling of new homes on land purchased from others and invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders. The Company's house building activities ended in 2013 with the closing of its last housing unit in inventory and, other than a funding commitment under an existing syndicated mortgage loan, the Company does not plan further investment in such loans.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed and approved this MD&A and the consolidated financial statements as at September 30, 2013 and 2012.

CONTROLS AND PROCEDURES

At September 30, 2013, the Chief Executive Officer and the Chief Financial Officer ("certifying officers") of the Company have designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that information required to be disclosed in its various reports is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with IFRS. All ICFR are either completed or reviewed by the Chief Financial Officer. Other than the Chief Financial Officer, the Company has only one employee who is engaged in accounting and recordkeeping functions and who is directly supervised by the Chief Financial Officer.

The certifying officers have limited the scope of the design of DC&P and ICFR to exclude controls, policies and procedures of the Company's non-publicly accountable proportionately consolidated entities ("the entities"). Management of the entities is distinct from that of the Company and, as such, the Company does not have sufficient access to the entities to design and evaluate controls, policies and procedures carried out by these entities. The Company is satisfied that, considering its own review and analysis of financial information provided by the entities and discussion with the entities' management, material errors or omissions in the entities' financial reporting for consolidation purposes would come to the attention of the Company's management and be corrected prior to consolidation.

The following summary of financial information as at September 30, 2013 and 2012 and for the years then ended relates to the Company's aggregate consolidated proportionate share of its joint venture and co-tenancy operations, comprising all its investments in its investment property and residential construction segments:
(in thousands of dollars)

	September 30	
	2013	2012
Assets	$ 13,393	$ 14,853
Liabilities	4,369	4,655
	$ 9,024	$ 10,198

	Year ended September 30	
	2013	2012
Revenue	$ 3,187	$ 7,142
Expenses	1,995	6,272
Earnings	$ 1,192	$ 870

	Year ended September 30	
	2013	2012
Cash used in		
Operating activities	$ (1,044)	$ (1,027)
Investing activities	(49)	(1,724)
Financing activities	(237)	(563)

The certifying officers have evaluated the design and operating effectiveness of the Company's DC&P and ICFR for the year ended September 30, 2013 and have concluded that such DC&P and ICFR were appropriately designed and were operating effectively.

The certifying officers have determined there were no changes in the Company's ICFR that occurred during the year ended September 30, 2013 that have significantly affected, or are reasonably likely to significantly affect, the Company's ICFR.

FORWARD-LOOKING STATEMENTS

In various places in the MD&A, there are forward-looking statements reflecting management's current expectations regarding future economic conditions, results of operations, financial performance and other matters affecting the Company. Forward-looking statements include information regarding possible or assumed future results or transactions as well as statements preceded by, followed by, or that include the words such as "believes," "expects," "anticipates," "estimates," "intends" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in any forward-looking statements.

REVIEW OF FINANCIAL RESULTS

Financial data presented herein is expressed in thousands of Canadian dollars and is in accordance with IFRS.

Results of operations

Two-year summary of operating results
(in thousands of dollars, except per share amounts)

	2013	2012
Total revenue	$ 4,441	$ 8,537
Earnings before income taxes	$ 1,408	$ 2,055
Recovery of income taxes	5,509	5,938
Net earnings for the year	$ 6,917	$ 7,993
Basic and diluted earnings per share	$ 0.34	$ 0.39

Total revenue decreased in 2013 by $4.1 million compared to the revenue recorded for the same period in 2012, the result of decreases in housing sales of $4.86 million, interest and other income of $0.14 million, partially offset by an increase in investment property revenue of $0.1 million and an increase in the fair value gain on the Company's investment property of $0.8 million.

As mentioned in previous years, the nature of the Company's business does not allow for a consistent year-to-year volume of sales. Revenue is comprised of sales in specific projects as the marketplace dictates and buyers become available.

House building operations

(in thousands of dollars)

	2013	2012
Revenue from housing sales	$ 1,616	$ 6,475
Housing cost of sales	1,431	5,732
Gross profit from housing sales	$ 185	$ 743

The Company's share of revenue from housing sales as recorded by its joint ventures for 2013 decreased to $1.6 million from the $6.5 million recorded in 2012. This revenue decrease is primarily the result of fewer housing units closed as a result of the Company's decision to no longer acquire any new lots and to complete existing inventory only.

The gross margin percentage on housing sales is a function of the projects sold. Margins vary widely from project to project and are influenced by many factors including market demand in the project's location, the proximity of competing product, the mix of product within the project, the cost of land, the stage in a project when construction cost increases hit the market and the length of time it takes for a project to sell out resulting in higher carrying costs.

The gross margin percentage on housing sales across all projects for 2013 was 11.4% compared to 11.5% for 2012.

Rental operations

(in thousands of dollars)

		2013		2012
Rental revenues	$	745	$	644
Rental operating expenses		381		219
Net operating income*	$	364	$	425

* Net operating income is an important measure used by management to evaluate the operating performance of the investment property. However, it is not defined under IFRS, does not have a standard meaning and may not be comparable with other companies.

Rental revenue increased by $0.1 million from 2012 to 2013 primarily as a result of rental revenue from three new tenants whose tenancies commenced during 2013 and from a full year rent from a national fitness chain whose tenancy commenced in the second quarter of 2012.

Property operating expenses increased during 2013 compared to 2012 due to increases in building repair and maintenance costs in 2013 related to putting three new tenants in place, moving short-term tenants in and out and other building period costs.

See “ASSETS – Investment property” below for further information on the level of the property’s occupancy.

General and administrative expenses

General and administrative expenses increased in 2013 by $0.14 million over those recorded in 2012, the result of increased professional fees incurred in 2013 relating to income tax planning matters.

As previously disclosed in the Company’s Management Information Circular dated February 11, 2013, for the years ended September 30, 2013 and 2012, the terms of the Management Agreement provided for management fees of 3% of pre-tax earnings subject to a minimum of $0.3 million. For both years ended September 30, 2013 and 2012 the management fee of $0.3 million, calculated in accordance with the agreement, was recorded in accounts payable and accrued liabilities and included in general and administrative expenses. See “TRANSACTIONS WITH RELATED PARTIES.”

Interest and other income

The Company’s interest and other income is primarily earned from investments in short-term bank issued securities and syndicated mortgage loans. Income from these investments decreased from $1.4 million in 2012 to $1.2 million in 2013. This decrease was primarily due to the Company having greater investment in low interest rate cash and short-term money market instruments and substantially reduced investment in higher interest rate syndicated mortgage loans during 2013 compared to 2012.

After December 31, 2008, other than fulfilling funding commitments, participating in renewals or extensions on existing syndicated mortgage loans, and in two instances investing in a new syndicated mortgage loan to provide additional security on an existing syndicated mortgage loan with the same borrower, the Company ceased investing in new syndicated mortgage loans with a view to accumulating cash to pay future dividends, which were ultimately paid on January 13, 2010, March 4, 2011 and March 5, 2012.

Interest expense

The interest expense incurred by the Company to finance its house building operations is capitalized to land and housing under development and expensed through housing cost of sales as housing units are closed. The Company incurred interest expense in its rental operations in 2013 of $0.17 million compared to $0.21 million for 2012. This decrease is a result of reduced interest expense resulting from scheduled principal repayments made on the mortgage loan on its Vaughan, Ontario income-producing property together with an interest rate reduction on the mortgage loan from 5% to 4% in the second quarter of 2013.

Income taxes

The 2013 income tax provision of $0.4 million, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% to earnings before income taxes was offset by the reversal of a $5.8 million provision for tax exposures recorded in a prior year and no longer considered necessary and $0.1 million for other items.

The 2012 income tax provision of $0.6 million, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.875% to earnings before income taxes was offset by the reversal of a $6.7 million provision for tax exposures recorded in a prior year and no longer considered necessary net of $0.2 million for other items.

Selected quarterly consolidated financial information (unaudited)

(in thousands of dollars, except per share amounts)

	2013				2012			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Revenue	$ 770	$ 1,957	$ 941	$ 773	$ 1,282	$ 2,774	$ 1,909	$ 2,572
Net earnings	$ 61	$ 721	$ 6,061	$ 74	$ 1,449	$ 6,173	$ 188	$ 183
Basic and diluted earnings per share	$ 0.01	$ 0.03	$ 0.30	$ —	$ 0.07	$ 0.30	$ 0.01	$ 0.01

Fluctuations in the quarterly results over the two-year period shown above are mainly due to the timing of housing sales, the timing of the recognition of adjustments to housing cost of sales as discussed earlier in this MD&A, the timing of changes in the fair value of the Company's investment property and the reversal of tax provisions no longer considered necessary in the second quarter of 2013 and the third quarter 2012.

FINANCIAL CONDITION

(in thousands of dollars)

	2013	2012
Investment property	$ 10,705	$ 9,800
Housing under construction	—	1,201
Cash and cash equivalents	3,082	2,397
Restricted cash	1,015	1,051
Amounts receivable	490	334
Short-term investments	37,417	18,268
Marketable securities	2,766	2,257
Investments in syndicated mortgage loans	1,309	6,481
Income tax recoverable	445	8,930
Tenant inducements	399	420
All other assets	82	168
Total assets	$ 57,710	$ 51,307
Long-term financial liability		
Mortgage loan on income-producing property	$ 3,815	$ 4,050

ASSETS

Investment property

Investment property, comprised of the Company's 50%-owned rental building and adjacent rental land in Vaughan, Ontario increased in 2013 by $0.90 million, the result of capital improvements of $0.19 million, leasing costs capitalized of $0.03 million and a fair value adjustment of $0.80 million, decreased by expropriation proceeds of $0.11 million and $0.01 million amortization of leasing costs.

On June 13, 2013, in connection with its redevelopment along the Highway 7 corridor, The Regional Municipality of York ("the Region") expropriated two parcels of land totaling 0.452 acres (at the Company's share - 0.226 acres) of land forming part the Company's investment property. Compensation for the two parcels totaled $215 (at the Company's share - $108) net of a $390 (at the Company's share - $195) soil remediation offset for one of the parcels. The Company has the right to appeal the amount of compensation and the remediation offset without affecting the amount guaranteed, with the Region paying the costs of the appeal. The Company is in the process of preparing an appeal. The Company does not expect this expropriation will impact its present or intended uses for the property.

During the fourth quarter of 2011, the Company entered into an agreement to lease the rental land component of its investment property referred to above to an international chain for use as a fast food restaurant with drive-through for a fifteen-year term with two five-year renewal options. The tenant had originally been expected to commence operations on the site by July 2012 on the completion of the landlord's site work and the tenant's fixturing period but due to unforeseen delays involving the expropriation referred to above, the planning and design process and municipal and regional approvals this was delayed. All approvals have been received with landlord site work and tenant leasehold work now underway. The Company is expecting the tenancy to commence by the second quarter of 2014. The Company's share of the landlord's site preparation costs, originally expected to be approximately $0.15 million, are now expected to be approximately $0.2 million and will be paid from the Company's own resources.

As at September 30, 2012, the Company had achieved a 61% level of occupancy in its investment property.

On November 1, 2012, a new lease commenced for a further 8,000 square feet of space to an office furniture dealer for a term of five years and four months with a five-year renewal option. Also during the first quarter of 2013, a tenant occupying 11,405 square feet vacated its premises on December 9, 2012 before the expiry of its lease.

On April 1, 2013, a new lease commenced for a further 8,915 square feet of space to an artificial flower retail outlet for a ten-year term to commence April 1, 2013 with a five-year renewal option.

On August 1, 2013, a new lease commenced for a further 5,000 square feet of space to a stone and tile showroom and warehouse for a five-year term with a five-year renewal option.

With the new tenancies and termination detailed above, the Company achieved an occupancy level of 68% in its investment property at September 30, 2013.

Housing under construction

Housing under construction was comprised of land and housing inventory in the Company's joint venture house building projects. The Company's inventory of housing under construction of $1.2 million at September 30, 2012 was completed and sold to home buyers in 2013.

Investment in syndicated mortgage loans

The Company's investment in syndicated mortgage loans decreased by $5.2 million during the year, as a result of the proceeds received on maturities, net of a $0.6 million advance under a new loan, with a further commitment of $0.7 million of which $0.23 million has been advanced as of December 17, 2013. These funds received were, for the most part, reinvested in short-term bank issued securities. Refer to the section "RISK MANAGEMENT – Credit and operational risks" later in this MD&A for further comments regarding the Company's investment in syndicated mortgage loans and related risk and loan impairment considerations.

Cash resources

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition. Restricted cash, all held in the Company's house building and investment property joint ventures, includes deposits required to secure outstanding guarantees and letters of credit of $0.18 million and funds held in trust by the project manager of $0.8 million on the basis of $2 thousand per project dwelling unit. These trust funds are held pursuant to the project joint venture agreements and are meant to provide a contingency fund should any warranty or other claims be made with respect to the houses sold. The project manager, at its discretion, may call on joint venture members for additional contingency fund contributions if and when required, pay for additional project costs contemplated when establishing the fund or release remaining funds back to the joint venture for distribution to the members once they are no longer considered necessary to hold. No requests for additional contributions to the contingency fund have been requested by the project manager as at September 30, 2013.

Amounts receivable

Amounts receivable increased in 2013 by $0.16 million as a result of an increase in straight-line rent receivable of $0.08 million, $0.21 due from the Region in connection with the expropriation referred to above and payment for a temporary easement over the Company's lands during the Highway 7 corridor redevelopment, offset by a $0.13 million reduction of amounts due on closing in the Company's house building joint ventures.

LIABILITIES

Loans payable

Loans payable decreased during 2013 by $0.24 million as a result of scheduled principal repayments on the mortgage loan on its Vaughan, Ontario income-producing property.

A condition of the mortgage loan is that the co-tenancy maintains a long-term debt to tangible equity ratio of 3:1. As at September 30, 2013, this condition has been met.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased in 2013 by $0.09 million due to an increase in the Company's share of accounts payable of $0.02 million in its investment property joint venture, increased year-end expense accruals of $0.14 million primarily for professional fees related to income tax planning matters, partially offset by a decrease of $0.07 million in the Company's share of accounts payable in its house building joint ventures.

OUTSTANDING SHARE DATA

At December 17, 2013, the Company's authorized capital stock consists of an unlimited number of Class B, voting shares, without par value, of which 20,575,866 shares are issued and outstanding at a stated value of $35.9 million, unchanged since October 1, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

(in thousands of dollars)

	2013	2012
Cash provided by (used in)		
Operating activities	$ 15,829	$ 9,703
Investing activities	(14,907)	745
Financing activities	(237)	(16,507)
Increase (decrease) in cash and cash equivalents	685	(6,059)
Cash and cash equivalents, beginning of the year	2,397	8,456
Cash and cash equivalents, end of the year	$ 3,082	$ 2,397

Cash and cash equivalents decreased in 2012 by $6.1 million. This decrease resulted from a dividend payment of $15.4 million, $3.5 million of investment net of maturities of short-term money market instruments, income tax installments of $2.6 million, the repayment of bank advances and loans payable of $1.0 million and $0.4 million of other net cash outflows. These cash outflows were partially offset by $4.6 million of cash generated in the Company's house building segment, repayment of the vendor take-back mortgage on the Company's Collingwood, Ontario land sale in a previous year of $6.8 million and $5.4 million of maturities net of advances in the syndicated mortgage loan segment.

Cash and cash equivalents increased in 2013 by $0.7 million. This increase resulted from a refund of income tax over installments of $13.7 million made in prior years, $4.2 million of maturities net of advances in the syndicated mortgage loan segment, $1.2 million of cash generated in the Company's house building segment and $1.5 million of other net cash inflows. These cash inflows were partially offset by the repayment of loans payable of $0.2 million, $19.1 million investment net of maturities of short-term money market instruments and income tax installments of $0.6 million.

The Company continues to use cash flows to fund commitments to additional funding of existing syndicated mortgage loans and to invest in cash equivalents and short-term money market investments. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its business activities.

On February 13, 2012, the Company declared a special dividend of $0.75 per Class B share payable to shareholders of record at the close of business on February 23, 2012. The dividend, totaling $15,432 was paid on March 5, 2012.

Management expects to be able to fund the repayment of the Company's mortgage loans payable as payments fall due or to be able to refinance such loans on their maturity.

TRANSACTIONS WITH RELATED PARTIES

The Company has entered into transactions with other entities in which the following individuals hold management positions as noted in the following tables:

(in thousands of dollars)

September 30, 2013	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property	Receives interest for loans made to a house building joint venture	Receives payment for construction contracting services to house building joint ventures
Marc Muzzo	(1)	150				—	—
Stanley Goldfarb	(2)	150					
Rudolph P. Bratty	(3)		3				
Dani Cohen	(4)			25	157		
Mark Kornhaber	(5)				2		

September 30, 2012	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property	Receives interest for loans made to a house building joint venture	Receives payment for construction contracting services to house building joint ventures
Marc Muzzo	(1)	150				36	1
Stanley Goldfarb	(2)	150					
Rudolph P. Bratty	(3)		3				
Dani Cohen	(4)			25	155		
Mark Kornhaber	(5)				9		

(1) Marc Muzzo is a shareholder, director and officer of the Company who holds management positions in entities that have provided management and other services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans.

(2) Stanley Goldfarb is a shareholder, director and officer of the Company who holds a management position in an entity that has provided management services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans and a director of a Toronto Stock Exchange listed company that is a co-investor in all of the Company's syndicated mortgage loans.

(3) Rudolph P. Bratty is a shareholder and director of the Company who exerts significant influence on a law firm that is paid legal fees for legal services to the Company as noted in the tables above.

(4) Dani Cohen is a joint venture partner in the Company's investment property. He is paid management fees for management services to the property and pays rent for space leased in the property as noted in the tables above.

(5) Marc Kornhaber is a joint venture partner in the Company's investment property. He pays rent for space leased in the property as noted in the tables above.

RISK MANAGEMENT

Interest rate risk

The Company is subject to interest rate fluctuations, however, current low and stable interest rates have lessened the risk associated with such fluctuations. The investments in syndicated mortgage loans are repayable in full at the option of the borrower at any time, and are subject to a minimum specified rate of interest or prime plus a specified interest spread if such exceeds the minimum specified rate. The Company's debt comprises a mortgage loan payable on an income-producing property.

Credit and operational risks

The Company's credit risk relates to the potential of financial loss resulting from the failure of a borrower or counterparty to fully honour its financial or contractual obligations, such as to repay principal and/or interest on a syndicated mortgage loan. Fluctuations in real property values may increase the risk of default and may also reduce the net realizable value of the collateral real property to the Company. Credit losses occur when the counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. Credit risk is mitigated through credit enhancement, which is comprised of excess spread and obtaining sufficient real property collateral, as well as monitoring the level of concentration of credit risk from individual borrowers. Furthermore, the Company leverages the credit risk management objectives, policies and procedures of the mortgage syndicator to help mitigate the credit risk. These policies and procedures govern credit administration and arrears management.

The Company's operational risk relates to the potential of losses on housing under construction resulting from any instability in the real estate sector in the Greater Toronto Area and any reduction in the level of activity in the Company's house building joint ventures.

The Company's maximum exposure to credit risk consists of the carrying values of cash and cash equivalents, restricted cash, amounts receivable, investment in syndicated mortgage loans and marketable securities.

As at September 30, 2013, none of the Company's financial assets are past due.

The Company held a 30% interest in a first charge syndicated mortgage loan and a 60% interest in a second charge syndicated mortgage loan on a townhouse development under construction in the Greater Toronto Area. The Company's investment in these two loans, both of which were over 90 days past due, totaled $1,447 at September 30, 2012. Both loans were repaid in 2013 without loss to the Company.

Liquidity risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of a commitment under one of the Company's syndicated mortgage loan investments amounting to $702 (September 30, 2012 - $47).

The following table summarizes the contractual amounts and maturity of the Company's financial liabilities on an undiscounted basis:

Contractual obligations are due as follows:
(in thousands of dollars)

	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loans payable (1)	$ 5,088	$ 387	$ 745	$ 705	$ 3,251
Accounts payable and accrued liabilities	1,090	1,020	70	—	—
Further advances under a syndicated mortgage loan (2)	702	702	—	—	—
Liabilities and other contractual obligations	$ 6,880	$ 2,109	$ 815	$ 705	$ 3,251

(1) A 4% interest rate has been used for the remaining term to maturity.

(2) Based on management's estimate of the timing of borrower requesting additional funding as per the terms of the original lending agreement. Any such additional funding will form part of the Company's investment in syndicated mortgage loans.

Environmental risks

As an owner of real property, the Company is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for costs of removal and remediation of certain hazardous toxic substances released on or in its properties, or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real property or to borrow using such real property as collateral and, potentially, could result in claims against the Company. The Company is not aware of any material environmental liabilities at the present time.

FUTURE ACCOUNTING CHANGES

Accounting standards issued and yet to be applied

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments on its consolidated financial statements.

(a) IFRS 9 – Financial Instruments

This standard was issued in November 2009 and is effective for annual periods beginning on or after January 1, 2015. The standard addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(b) IFRS 10 – Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation — Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

(c) IFRS 11 – Joint Arrangements

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions By Venturers.

(d) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and non-consolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

(e) IFRS 13 – Fair Value Measurement

This standard is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(f) Amendments to existing standards not yet effective

There have been amendments to existing standards, including IAS 27, Separate Financial Statements ("IAS 27"), and IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

FINANCIAL INSTRUMENTS

(in thousands of dollars)

The three levels of the fair value hierarchy, that prioritize the inputs to fair value measurement, are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
Level 3 – inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as described above as at September 30, 2013 and September 30, 2012:

September 30, 2013	Level 1	Level 2	Level 3	Total
Short-term investments	$ 37,417	$ —	$ —	$ 37,417
Marketable securities	2,766	—	—	2,766
	$ 40,183	$ —	$ —	$ 40,183

September 30, 2012	Level 1	Level 2	Level 3	Total
Short-term investments	$ 18,268	$ —	$ —	$ 18,268
Marketable securities	2,257	—	—	2,257
	$ 20,525	$ —	$ —	$ 20,525

Fair value

The fair values of investments traded in active markets, such as marketable securities available-for-sale, are based on the quoted bid price on the consolidated balance sheet date.

The fair values of cash and cash equivalents, restricted cash, investments in term deposits and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of investments in syndicated mortgage loans approximates their carrying value, as they are repayable in full at the option of the borrower at any time and, for the most part, the interest rate is subject to adjustment.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and financial performance of the Company is based on the consolidated financial statements, which are prepared in accordance with IFRS. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Estimates and assumptions are evaluated on an ongoing basis. Estimates are based on historical experience and other assumptions that management believes are reasonable and appropriate in the circumstances. Actual results could differ from those estimates.

Management believes the most critical accounting estimates are as follows:

Impairment of investments in syndicated mortgage loans

The Company reviews its investments in individual syndicated mortgage loans on a regular basis to evaluate the risk of default on any outstanding loan, which would result in the ultimate realization of less than the balance owing. Factors such as the prospect for completion of the development and sale of the underlying real property security and the present value of estimated future cash flows from the project are taken into consideration when estimating impairment.

Fair value of investment property

The fair value of the Company's last remaining investment property was determined by qualified external valuation professionals at September 30, 2013 and September 30, 2012. This property is comprised of two components, a rental building and adjoining rental land. The valuation of the building was done using the "Discounted Cash Flow Method" in which the income and expenses are projected over the anticipated term of the investment. The valuation of the rental land was done using the "Overall Capitalization Rate Method" whereby the net operating income is capitalized at the requisite overall capitalization rate.

Estimated costs to complete housing under development

The Company incurs soft costs, such as interest and realty taxes, in its house building operations. Such costs are estimated over the life of a project and allocated on a pro rata basis to each unit sold. These estimates are regularly revisited and adjusted up or down in light of changing circumstances. The Company accounts for such changes in estimates using the cumulative catch-up method whereby estimated cost increases or decreases are applied to all house sales in the project (past, current and future). Using this method results in a cumulative adjustment in a current period to account for the estimated cost increase or decrease on a pro rata basis to homes sold in prior periods.

Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions of future periods. The measurement of deferred income tax liabilities at the consolidated balance sheet dates requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

OFF-BALANCE SHEET ARRANGEMENTS

Financial guarantees

The Company has letters of credit available totaling $0.2 million (2012 - $0.3 million), of which $0.1 million (2012 - $0.3 million) has been utilized in support of its obligation to complete servicing requirements in connection with various house building projects.

The Company is contingently liable for its associates' share of the obligations in joint ventures and co-tenancy developments. At September 30, 2013, the Company's associates' share of the obligations of such entities comprises liabilities of $1.1 million (2012 - $0.9 million) and letters of credit of $0.4 million (2012 - $0.7 million) in support of obligations to complete servicing requirements in connection with various house building projects. In each case, assets of the joint ventures and co-tenancy developments, consisting primarily of cash and cash equivalents and housing under development, are available to satisfy such obligations.

Commitments

The Company has commitments to make additional advances totaling $0.7 million under one of the syndicated mortgage loans described above of which $0.23 million has been advanced as of December 17, 2013.

OUTLOOK

As at September 30, 2013, the Company had completed and closed its remaining housing inventory and management does not intend to invest further in housing construction.

The Company's last remaining real estate holding consists of the investment property and adjoining rental land described above under "Financial Condition – Assets." The Company is continuing with its efforts to complete the leasing of its Vaughan, Ontario investment property. Management is continuing to receive expressions of interest to lease space in the building and has been working with prospective tenants with some success as discussed above. No new space has been leased subsequent to September 30, 2013.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. No losses have been realized on any of the Company's investments and management believes they are adequately secured by the underlying real property security.

Management and the Board of Directors continue to assess the basis for the Company's ongoing operations with a view to maximizing shareholder value.

Additional information relating to the Company has been filed on SEDAR and can be found at www.sedar.com.